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C O N F I D E N T I A L THE HAGUE 000276

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SUBJECT: ISA: SHELL ADVISOR DESCRIBES "STALEMATE" WITH IRAN

REF: A. 07 THE HAGUE 935

[1](#)B. 07 THE HAGUE 246

Classified By: CDA Michael Gallagher, reasons 1.4 (b) and (d)

[1](#)1. (C/NF) SUMMARY: Shell is continuing its "go slow" approach and is in a "stalemate" with Iran for commercial as well as political reasons according to a Shell official. These comments are consistent with remarks made by Shell CEO van der Veer to then Ambassador Arnall in November 2007. END SUMMARY.

(C/NF) Shell will keep its "finger in the pie"...

[1](#)2. (C/NF) Econoff discussed Shell's Iran strategy with Simon Smits (protect), a government relations advisor seconded to Shell from the Dutch Ministry of Foreign Affairs (MFA), during a March 7 event at a think tank in The Hague. (Note: Smits will transfer back to the MFA's Environment Department in 2008. End note.) Smits said that Shell was continuing its "go slow" approach to investing in Iran, and he expected the company to go "very slow" in the near term given the latest UN Security Council resolution on Iran. He said Shell wanted to keep "a finger in the pie" in Iran, partly to block other groups -- that do not share "misgivings" about doing business with the current regime -- from establishing a dominant position in Iran's hydrocarbon sector. To that end, Smits added, Shell maintained a "candle burning" presence with just a few employees in Iran. These comments are consistent with remarks made by Shell CEO Jeroen van der Veer to then Ambassador Arnall in November 2007 -- that Shell was still reviewing the economic feasibility of investing in Iran and that the company would not decide whether to move forward for at least a year. (See reftels for related reporting.)

(C/NF) ...but doesn't want Ahmadinejad to reap the profits

[1](#)3. (C/NF) Smits described the commercial factors behind Shell's "go slow" approach. He said that President Ahmadinejad wanted to get oil and gas flowing from its undeveloped fields (e.g., Yadavaran) as quickly as possible, without regard for maximizing the fields' long-term profitability. Smits speculated that such impatient tactics might extract only fifteen percent of the potential oil and

gas from the ground, although this would still generate significant short-term income for the Iranian government. Smits said that Shell's operating philosophy did not allow for exploiting resources in this manner. He said that the Iranian government was strongly opposed to Shell's slower development approach -- which has led to a "stalemate" over Shell's investment prospects. Smits added that Shell was making a political calculation as well as a commercial one -- bringing the undeveloped oil and gas fields onstream more deliberately would increase the likelihood that Iran's current leadership will be gone when the fields are yielding bigger payouts.

Gallagher